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SUBJ: MALTA - ANNUAL POLICY ASSESSMENT 1976

REF: 75 STATE 289641, 291794, 75 VALLETTA 0326

1. SUMMARY: 1976 IS ELECTION YEAR IN MALTA. AFTER FIVE YEARS OF MINTOFF'S FLAMBOYANT LEADERSHIP, THE MALTESE MUST NOW DECIDE WHICH OF THEIR TWO POLITICAL PARTIES WILL BE RESPONSIBLE FOR SEEKING SOLUTIONS TO THEIR COUNTRY'S ENDEMIC ECONOMIC PROBLEMS AS THE BRITISH MILITARY WITHDRAWAL BEGINS. BOTH MINTOFF'S LABORITES AND THE OPPOSITION NATIONALISTS BELIEVE THAT MALTA'S STRATEGIC MEDITERRANEAN LOCATION WILL STILL BE SUFFICIENTLY VALUABLE TO NATO TO JUSTIFY CONTINUATION AFTER 1979 OF SOME FORM OF ANNUAL MONETARY SUBSIDY. WE HAVE SERIOUS DOUBTS THAT THIS WILL BE THE CASE. BUT, IN ANY EVENT, IT WILL BE ESSENTIAL FOR THE USG AND NATO TO REACH CONCLUSIONS CONCERNING MALTA'S FUTURE AS SOON AS POSSIBLE AFTER THE 1976 ELECTIONS, IF WE ARE TO AVOID ANOTHER CRISIS MANAGEMENT EXERCISE RESULTING FROM MALTESE BLACKMAILING TACTICS. BILATERAL U.S. INTERESTS IN MALTA HAVE BEEN, AND WILL REMAIN, LIMITED. AND IF NATO'S SOUTHERN TIER REMAINS INTACT, IT MAY WELL BE THAT MALTA IN THE 1980'S MIGHT NOT MATTER THAT MUCH TO THE OTHER ALLIANCE MEMBERS EITHER. IF SO, THIS WILL COME AS A RUDE SHOCK TO THE MALTESE. END SUMMARY.

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2. THE SETTING: MALTA IN 1976

AFTER ALMOST FIVE YEARS UNDER THE DYNAMIC LEADERSHIP OF PRIME MINISTER DOM MINTOFF, MALTA HAS REACHED A CROSSROADS. 1976 IS ELECTION YEAR IN THIS SMALL MEDITERRANEAN CITY-STATE. THE 325,000 MALTESE APPEAR TO BE FAIRLY EVENLY DIVIDED BETWEEN SUPPORT FOR MINTOFF'S SOCIALIST, RATHER PRAGMATIC LABOR PARTY AND THE CONSERVATIVE, FREE ENTERPRISE-ORIENTED OPPOSITION NATIONALIST PARTY UNDER FORMER PRIME MINISTER GIORGIO BORG OLIVIER.

THE ELECTION WHICH BROUGHT MINTOFF TO POWER IN THE SUMMER OF 1971 WAS A VERY CLOSE ONE AND THE "IT'S TIME FOR A CHANGE" SYNDROME WAS LARGELY RESPONSIBLE FOR HIS ELECTION. NOW, AFTER MUCH EXPERIENCE WITH MINTOFF'S FLAMBOYANT, "ONE-MAN SHOW" STYLE LEADERSHIP, THE MALTESE MUST DECIDE WHETHER THEY WANT ANOTHER FIVE YEARS OF MINTOFF'S ANTICS, OR WHETHER THEY PREFER A RETURN TO THE QUIETER DAYS OF NATIONALIST PARTY ADMINISTRATION.

THE MALTESE PARLIAMENT'S MANDATE EXPIRES IN AUGUST 1976, AND A GENERAL ELECTION IS REQUIRED WITHIN THREE MONTHS OF DISSOLUTION, OR BY NOVEMBER 1976. IT IS PROBABLE THAT MINTOFF WILL CALL THE ELECTION IN THE LATE SUMMER OR EARLY FALL, WHENEVER HE DECIDES THE TACTICAL ADVANTAGE FOR THE LABOR PARTY IS GREATEST. BOTH SIDES ARE READY FOR THE CONTEST, AND ANXIOUSLY AWAITING THE SHOWDOWN.

FORECASTS OF THE ELECTION OUTCOME ARE MANY, AND ALL HIGHLY QUESTIONABLE. THERE WILL BE A LARGE NUMBER OF NEW, UNTESTED VOTERS PARTICIPATING IN THE 1976 ELECTION. (SINCE 1971, THE VOTING AGE IN MALTA HAS BEEN LOWERED FROM 21 TO 18.) SOME 40,000 MALTESE OUT OF A TOTAL ELECTORATE OF 210,000 WILL BE VOTING FOR THE FIRST TIME. THERE HAVE BEEN NO BY-ELECTIONS IN FIVE YEARS, AND THERE ARE NO PUBLIC OPINION POLLS IN MALTA. AS A RESULT,

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THE 1976 OUTCOME IS PROBLEMATIC. THE GENERAL BELIEF IS THAT NEITHER PARTY WILL WIN WITH A LARGE MAJORITY. PREDICTIONS RANGE FROM A FIVE-SEAT LABOR MARGIN TO A FIVE-SEAT NATIONALIST ONE (THERE WILL BE A TOTAL OF 651 PARLIAMENTARY SEATS CONTESTED FOR THE UNICAMERAL HOUSE OF REPRESENTATIVES), WITH BOTH PARTIES PROFESSING CONFIDENCE THAT THEY WILL COME OUT ON TOP.

AT THIS STAGE, BEFORE THE REAL ELECTION CAMPAIGN BEGINS, THE EMBASSY LEANS TO THE VIEW THAT MINTOFF AND THE LABOR PARTY PROBABLY WILL BE REELECTED IN A VERY CLOSE CONTEST. HOWEVER, MINTOFF HAS STEPPED ON MANY TOES, AND WE WOULD NOT BE SURPRISED AT A NATIONALIST VICTORY. THEREFORE, THIS ASSESSMENT TAKES BOTH POSSIBILITIES INTO ACCOUNT.

AS FAR AS U.S. INTERESTS HERE ARE CONCERNED, WE SHOULD (WITHIN REASON) BE ABLE TO WORK WITH EITHER ANOTHER LABOR GOVERNMENT, OR WITH A NEW NATIONALIST GOVERNMENT, DURING THE CRUCIAL POST ELECTION PERIOD WHEN MALTA'S FUTURE MUST BE DETERMINED. IF IT IS TO BE FIVE MORE YEARS OF MINTOFF'S ACTIVIST BUT ERRATIC LEADERSHIP, AT LEAST WE HAVE LEARNED TO LIVE AND DEAL WITH HIM, AND HE IS NOT NEARLY AS MUCH OF AN UNKNOWN QUANTITY TODAY AS HE WAS DURING THE 1971-72 NATO BASE "CRISIS." IF IT IS TO BE A RETURN TO BORG OLIVIER AND THE NATIONALISTS, THERE WILL BE AN OPPORTUNITY FOR CLOSER TIES BETWEEN MALTA AND THE U.S. (AND POSSIBLY FOR RESUMPTION OF SIXTH FLEET VISITS), BUT ONLY AT A STEEP PRICE. THE NATIONALISTS WILL, OF COURSE, EXPECT THE WEST TO DO MORE FOR THEM THAN HAS BEEN DONE FOR MINTOFF. THIS WOULD INCLUDE PAINFUL REQUESTS FOR ADDITIONAL U.S. BILATERAL ASSISTANCE.

3. U.S. INTERESTS IN MALTA AND WHERE MALTA FITS INTO U.S. POLICY PRIORITIES

U.S. INTERESTS IN MALTA ARE LIMITED, ESPECIALLY WHEN COMPARED WITH THOSE OF THE BRITISH AND WITH THOSE

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OF THE MEDITERRANEAN NATO MEMBERS (PARTICULARLY ITALY).

TRADITIONALLY, THE U.S. HAS NOT HAD MAJOR POLITICAL TIES WITH MALTA, AND OUR ECONOMIC RELATIONS (TRADE, INVESTMENT, ETC.) HAVE BEEN ONLY A MINOR FACTOR IN MALTESE DEVELOPMENT. MALTA REMAINS AT LEAST FOR THE PRESENT, MUCH MORE OF A EUROPEAN AND BRITISH PROBLEM THAN AN AMERICAN ONE.

THE MAJOR U.S. INTEREST IN MALTA IS NOT A BILATERAL ONE, BUT PART OF THE MULTILATERAL CONCERN OF THE NATO ALLIANCE REGARDING MEDITERRANEAN SECURITY. WITHIN THIS CONTEXT, THE EMBASSY CONSISTENTLY HAS MADE MAJOR EFFORTS TO COORDINATE U.S. POLICIES AND OBJECTIVES IN MALTA WITH THOSE OF OTHER NATO GOVERNMENTS

REPRESENTED HERE, AND ESPECIALLY WITH THE BRITISH
HIGH COMMISSION. WE BELIEVE THIS TO BE NOT ONLY
VERY DESIRABLE FROM OUR OWN POINT OF VIEW, BUT

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ESSENTIAL IN PROTECTING THE NATO GOVERNMENTS FROM
THE BITTERLY FAMILIAR "DIVIDE-AND-CONQUER) TACTICS
OF MINTOFF.

ALTHOUGH BILATERAL U.S./MALTESE RELATIONS HAVE
REMAINED RELATIVELY QUIET AND REASONABLY HARMONIOUS
OVER THE PAST SEVERAL YEARS, THESE FORTUITOUS
CIRCUMSTANCES COULD BE ALTERED AT ANY TIME BY MINTOFF'S
WELLKNOWN PENCHANT FOR MISCHIEF-MAKING. WE DO
NOT EXPECT THIS TO HAPPEN, BUT DURING AN ELECTION CAMPAIGN
ANYTHING IS POSSIBLE.

4. BASIC U.S. POLICY OBJECTIVES IN MALTA OVER THE
NEAR TERM

UNTIL THE 1976 MALTESE LENEAL ELECTIONS ARE OVER,
THE MAJOR U.S. POLICY OBJECTIVES SHOULD REMAIN UNCHANGED
FROM OSE OF THE PAST SEVERAL YEARS. THESE HAVE BEEN
DEFINED PREVIOUSLY AS FOLLOWS:

- A. DENIAL OF SOVIET ACCESS TO MALTA;
- B. RETENTION OF MALTA'S MILITARY FACILITIES FOR
THE WEST, INCLUDING SIXTH FLEET ACCESS;
- C. CONTINUATION OF MALTA'S TIES TO THE WEST.

THESE POLICY OBJECTIVES ARE BASED ON THE JUDGMENT
THAT THE U.S. AND NATO STRATEGIC POSITION IN THE
MEDITERRANEAN WOULD BE SIGNIFICANTLY (PERHAPS UNACCEPTABLY)

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ALTERED SHOULD MALTESE MILITARY FACILITIES BECOME
AVAILABLE TO THE SOVIET UNION. BUT IS THIS A REAL
POSSIBILITY? FORTUNATELY, MINTOFF DOES NOT WANT SOVIET
ACCESS TO MALTA EITHER. ONE OF THE FUNDAMENTAL TENETS
OF HIS FOREIGN POLICY CONTINUES TO BE THE AVOIDANCE OF
INVOLVEMENT WITH EITHER OF THE SUPERPOWERS; HENCE,
NEITHER SOVIET NOR U.S. FLEETS ARE WELCOME.

WHILE NOT AS CRUCIAL, NATO ACCESS TO MALTA REMAINS
AN IMPORTANT FACTOR IN ALLIANCE DEFENSE PLANNING, AT
LEAST IN THEORY. AT THE TIME OF THE MINTOFF-GENERATED
"CRISIS" OF 1971-72 OVER THE NATO PRESENCE HERE, IT
WAS FINALLY AGREED THAT THE ACHIEVEMENT OF THE ABOVE
OBJECTIVES WAS WORTH THE ANNUAL PAYMENT OF A SUBSTANTIAL
SUBSIDY TO THE MALTESE GOVERNMENT BY VARIOUS NATO MEMBERS,
INCLUDING THE USG. ORIGINALLY SET AT 14 MILLION POUNDS
STERLING PER YEAR, THE PAYMENT HAS BEEN ADJUSTED ANNUALLY
TO COMPENSATE FOR FLUCTUATIONS IN THE EXCHANGE RATE
OF THE BRITISH POUND. IT PROVIDES SOME DOLS 35 MILLION
ANNUALLY IN DIRECT PAYMENTS TO THE MALTESE ECONOMY,
AND WHEN ADDED TO THE LOCAL EXPENDITURES OF THE RESIDENT
BRITISH FORCES AND THEIR FAMILIES, RESULTS IN PERHAPS
DOLS 80 MILLION A YEAR IN MEASURABLE BENEFITS TO THE
MALTESE. THIS AMOUNTS TO SOME 25 PERCENT OF MALTA'S
GNP.

MALTA HAS THEREFORE BENEFITED SUBSTANTIALLY DURING
THE PAST FIVE YEARS FROM THE ATTAINMENT OF THE JOINT
U.S./NATO OBJECTIVES CONCERNING THIS COUNTRY, AND THE
PRESENT HIGH MALTESE STANDARD OF LIVING IS LARGELY
DEPENDENT ON THIS FACT.

5. HOW WE HAVE ADVANCED U.S. POLICY OBJECTIVES IN
MALTA OVER THE PAST YEAR

SINCE MARCH 1972, WHEN HE REVISED BRITISH/MALTESE
MILITARY FACILITIES AGREEMENT (MFA) WAS SIGNED, MAJOR
72. POLICY OBJECTIVES HAVE BEEN ACHIEVED THROUGH THIS
MEDIUM. THE AGREEMENT, WHICH RUNS UNTIL MARCH 31, 1979,
SPECIFICALLY PROVIDES THAT THE GOVERNMENT OF MALTA
SHALL NOT PERMIT THE FORCES OF ANY WARSAW PACT MEMBER

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(I .E., THE SOVIET UNION) TO BE STATIONED IN MALTA, OR TO
USE MALTESE MILITARY FACILITIES.

THE CONTI UED ACHIEVEMENT OF THE PRIMARY OBJECTIVE
OF SOVIET DENIAL DOES NOT REQUIRE ANY SPECIFIC U.S.
ACTION, EXCEPT THE PAYMENT OF OUR SHARE (AMOUNTING TO
DOLS 9.5 MILLION) OF THE ANNUAL NATO SUBSIDY.THE FUNDS ARE OBTAINED
FROM A.I.D.-ADMINISTERED SUPPORTING
ASSISTANCE APPROPRIATIONS.

THE SECOND MAJOR OBJECTIVE, NATO ACCESS TO MALTA,
ALSO HAS BEEN ACHIEVED THROUGH THE MFA, WHICH PROVIDES
THE UNITED KINGDOM HAS THE RIGHT TO STATION
BRITISH FORCES IN MALTA AND TO USE MALTESE FACILITIES
FOR THE "DEFENSE PURPOSES OF THE UNITED KINGDOM AND
NATO." THE UTILIZATION OF MALTESE FACILITIES BY
OTHER NATO FORCES HAS BEEN INFREQUENT. THERE HAVE
BEEN SOME FRENCH AND ITALIAN NAVAL VISITS, AND A
DUTCH COMMANDO GROUP TRAINED FOR A FEW WEEKS IN
MALTA DURING 1975. NATO DOES, OF COURSE, DERIVE
CONSIDERABLE BENEFIT FROM THE RAF AND BRITISH NAVAL
FORCES BASED IN MALTA. HOWEVER, NATO CANNOT REALLY
COUNT ON THE UTILIZATION OF MALTESE BASES IN ITS
OPERATIONAL ACTIVITIES OR PLANNING. THERE CONTINUES
TOBE A COMPLETE DENIAL OF ACCESS TO MALTA BY ANY
U.S. MILITARY TR NAVAL FORCES, INCLUDING THE SIXTH
FLEET AND THIS WILL CONTINUE TO BE THE CASE AS LONG
AS MINTOFF IS PRIME MINISTER. HE IS UNYIEDING ON THIS
POINT.

THE THIRD OBJECTIVE OFPRESERVING MALTA'S WESTERN
TIES HAS BEEN A DIFFICULT ONE TO ACHIEVE UNDER MINTOFF'
AND ANY SUCCESS IS HARD TO MEASURE. WHILE MAINTAINING
A PUBLIC LOVE--HATE RELATIONSHIP WIH THE BRITISH
(AS THE FORMER COLONIAL POWER), MINTOFF HAS OFFICIALLY
AND VIGOROUSLY REDIRECTED MALTESE FOREIGN POLICY
TOWARD SOLIDARITY WIH THE "NONALIGNED" WORLD. HE HAS
AVIDLY SOUGHT SUPPORT AND ECONOMIC ASSISTANCE FROM
SUCH NEW "FRIENDS" AS THE CHINESE, THE NORTH KOREANS,
THE LIBYANS,THE ARAB GULF STATES AND,IN FACT, ALMOST
ANY COUNTRY WILLING TOAID MALTESE DEVELOPMENT.

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MINTOFF'S GOAL IN THIS IS TO "FREE" MALTA FROM ITSHISTORICAL FORTRESS
IMAGE, AND THE "DERADING"
NECESSITY OF ACCEDING MILITARY SUBSIDIES AND THE
PRESENCE OF FOREIGN MILITARY FORCES IN ORDER TO
SURVIVE ECONOMICALLY.

IN THE PROCESS, MALTA HAS DRIFTED SUBSTANTIALLY AWAY FROM THE WESTERN ORBIT, ALTHOUGH THE CONTINUED BRITISH MILITARY AND CIVILIAN PRESENCE HERE HAS HELPED CONSIDERABLY TO BLUNT THE EFFECTS OF MINTOFF'S NON-ALIGNED POSTURING. MOST MALTESE GENERALLY REGARD THEMSELVES AS EUROPEAN BY CULTURE, RELIGION, TRADITION AND GENERAL ORIENTATION. AMONG NATIONALISTS, THERE IS A STRONG DESIRE TO BE PART OF THE WESTERN WORLD REPRESENTED BY THE EEC AND NATO. THERE IS A CONSIDERABLE RESERVIOR OF GOOD WILL TOWARD THE WEST HERE, INCLUDING CLOSE PERSONAL, CULTURAL AND ECONOMIC TIES WITH THE UNITED KINGDOM AND, TO A LESSER EXTENT, WITH ITALY. THIS ALSO IS TRUE OF THE UNITED STATES, PARTIALLY BECAUSE OF YEARS OF MALTESE EMIGRATION TO THE U.S., AND ALSO BECAUSE AMERICAN VALUES AND ACHIEVEMENTS REMAIN IMPORTANT EXAMPLES TO MANY MALTESE.

THE EMBASSY HAS, AND WILL CONTINUE, TO UTILIZE THESE CURRENTS WITHIN MALTESE SOCIETY TO REINFORCE THE BELIEF HERE THAT MALTA'S WESTERN TIES REMAIN OF GREATER LONG-RANGE VALUE THAN ANY TEMPORARY ADVANTAGES THAT MIGHT BE OBTAINED FROM COZYING UP STILL FURTHER

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TO THE THIRD WORLD. HOWEVER, THE MALTESE SUPPORT FOR "NEUTRALIST" AND "NONALIGNED" POLITICIES WILL NOT BE CHANGED WHILE MINTOFF IS IN POWER. DESPITE THIS, ALL WESTERN EMBASSIES HERE KEEP DOING THEIR BEST TO COUNTER-ACT THESE TRENDS, WITH PERHAPS SOME SUCCESS. WE WILL

CONTINUE TO DO SO.

6. FUTURE TRENDS AND PROBLEMS THAT MIGHT AFFECT U.S.
INTERESTS AND OBJECTIVES

UNTIL THE 1976 ELECTION IS BEHIND US, AND WE KNOW WHICH MALTESE POLITICAL PARTY THE U.S. AND NATO MUST DEAL WITH OVER THE NEXT FIVE YEARS, IT IS DIFFICULT TO PREDICT ALL THE PROBLEMS WHICH MIGHT HAVE A MAJOR EFFECT ON U.S. INTERESTS. HOWEVER, NO MATTER WHO WINS, CERTAIN ISSUES CAN BE IDENTIFIED, EVEN AT THIS EARLY STAGE.

FIRST, NEITHER THE LABOR PARTY NOR THE NATIONALIST PARTY REALLY HAS FIRM PLANS FOR WHAT HAPPENS TO MALTA AFTER 1977 (WHEN THE ALREADY SCHEDULED RUNDOWN OF BRITISH FORCES IN MALTA BEGINS), OR AFTER THE MARCH 1979 EXPIRATION OF THE MFA (WHEN THERE WILL NO LONGER BE ANY BRITISH MILITARY PRESENCE HERE).

MALTA IS NOT ONLY UNABLE TO DEFEND ITSELF MILITARILY, IT IS INCAPABLE EVEN OF ASSURING ITS OWN POLITICAL AND ECONOMIC INDEPENDENCE AFTER THE BRITISH LEAVE. MALTA
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IS VIRTUALLY WITHOUT NATURAL RESOURCES. ITS ECONOMIC VIABILITY, AT LEAST AT A POLITICALLY ACCEPTABLE STANDARD OF LIVING, IS CLEARLY DEPENDENT ON EITHER SOME FORM OF CONTINUED MONETARY SUBSIDY, OR ELSE A SIGNIFICANT NEW DEVELOPMENT SUCH AS THE DISCOVERY OF OFFSHORE OIL IN MALTESE WATERS. THIS LATTER POSSIBILITY IS ONLY SPECULATIVE AT THIS STAGE AND IN ANY EVENT, MUCH TOO FAR DOWN THE ROAD TO BE RELEVANT TO THIS ASSESSMENT.

TOURISM AND INTERNATIONAL RECOVERY WILL HELP THE MALTESE ECONOMY DURING 1976-79, AND PROBABLY THEREAFTER. BUT THIS WILL NOT BE ENOUGH. THE INVESTMENT CLIMATE IN MALTA HAS BECOME VERY BAD DUE TO MINTOFF'S DOMESTIC POLICIES (NATIONALIZATION, EXPROPRIATION, BANKING CONTROL, TAX INCREASES, MANDATORY WAGE INCREASES, ETC.). NEW BUSINESS AND MANUFACTURING INITIATIVES ARE BADLY NEEDED TO COUNTERACT MALTA'S ENDEMIC UNEMPLOYMENT PROBLEM (12,000 OUT OF A WORK FORCE OF 105,000 CURRENTLY ARE ON THE PUBLIC DOLE). EXTRAORDINARY EXPORT GROWTH WILL BE NEEDED TO MAINTAIN MALTA'S FAVORABLE BALANCE OF PAYMENTS AND TO OFFSET IMPORT REQUIREMENTS (MALTA HAS ALMOST NO RAW MATERIALS) AFTER 1979.

IN THE ABSENCE OF ANY REAL PLANS FOR MALTA'S FUTURE, BOTH POLITICAL PARTIES ARE NOW GROPING FOR ANSWERS.

THE NATIONALISTS ARE TALKING BOTH PRIVATELY AND PUBLICLY ABOUT SOME FORM OF NEW NATO SECURITY GUARANTEE (POSSIBLY WITH A CONTINUED SMALL NATO MILITARY PRESENCE BUT WITH A SIZEABLE SUBSIDY PROVIDED BY NATO COUNTRIES). MINTOFF HAS NOT YET TIPPED HIS HAND OPENLY, BUT IT IS HIGHLY LIKELY THAT HE MIGHT TRY TO MILK NATO AGAIN, IN THE FORM OF A CONTINUING SUBSIDY, THIS TIME IN RETURN FOR MALTA'S FUTURE "NEUTRALIZATION." MINTOFF UNDOUBTEDLY ASSUMES A HIGH DEGREE OF WESTERN CONCERN OVER A THREAT THAT THE SOVIETS, THE LIBYANS, OR THE CHINESE, MIGHT REPLACE THE BRITISH AFTER 1979. WE MUST THEREFORE BEAR IN MIND THAT BOTH MALTESE PARTIES HAVE AN EXAGGERATED VIEW OF MALTA'S STRATEGIC IMPORTANCE TO THE WEST AFTER 1979. IF THIS TURNS OUT NOT TO BE THE CASE, THE MALTESE ARE IN FOR A RUDE SHOCK.

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ONE POINT IS VERY CLEAR: MINTOFF WOULD LIKE NATO TO TAKE A DECISION ABOUT MALTA AND ITS IMPORTANCE TO THE WEST NOW, BEFORE THE ELECTION, TO PERMIT HIM TO REBUT PRESENT CRITICISMS FROM THE NATIONALISTS THAT THE LABORITES HAVE NO COHERENT PLAN, EITHER TO PROVIDE FOR MALTA'S SECURITY IN THE POST 1979 PERIOD, OR TO COMPENSATE FOR ITS SUBSTANTIAL LOSS OF REVENUE WHEN THE BRITISH FORCES LEAVE.

WE SEE NO REASON WHATEVER TO PLAY MINTOFF'S GAME BY FALLING INTO THIS TRAP. THE ITALIANS ARE EXTREMELY (ALMOST EXCESSIVELY) NERVOUS ABOUT MALTA'S FUTURE, AND MAY WELL PUSH NATO TO "DO SOMETHING" ABOUT THIS PROBLEM QUICKLY. HOWEVER, WHILE IT WOULD BE DESIRABLE FOR NATO TO PROCEED AS SOON AS POSSIBLE WITH A FULL REVIEW OF FUTURE POLICY TOWARD MALTA, SO THAT THE INITIATIVE IS NOT LEFT WITH THE MALTESE, WE BELIEVE THAT IT WOULD BE ADVISABLE FOR NATO TO WAIT UNTIL AFTER THE MALTESE ELECTION BEFORE REACHING ANY FINAL DECISIONS. (THE TIMETABLE SUGGESTED IN 75 USNATO 6665 APPEARS TO FIT THESE CRITERIA VERY WELL.)

AMONG THE QUESTIONS WHICH THE USG AND NATO SHOULD ANSWER IN THIS REVIEW WOULD BE THE FOLLOWING:

A. IS THE DENIAL OF SOVIET ACCESS TO MALTA STILL NATO'S MAJOR CONSIDERATION? IS THIS STILL THE MAJOR POLICY OBJECTIVE OF THE U.S. CONCERNING MALTA? IN THE ABSENCE OF A NATO MILITARY/STRATEGIC ASSESSMENT OF MALTA'S IMPORTANCE IN THE MEDITERRANEAN, WE WILL NOT BE ABLE TO MAKE AN INTELLIGENT JUDGMENT ON THIS.

B. IS THE MALTESE/LIBYAN CONNECTION A MAJOR PROBLEM FOR NATO OR THE U.S.? ALTHOUGH NO LIKELY, COULD WE ACCEPT A LIBYAN MILITARY PRESENCE IN MALTA AFTER 1979? THE CLOSE LIBYAN CONNECTION, AS PRESENTLY CONSTITUTED, IS A HIGH PERSONAL ONE, AND WILL NOT OUTLAST THE DEPARTURE OF EITHER MINTOFF OR GADHAFI. THE NATIONALISTS INSIST THEY COULD MAINTAIN GOOD RELATIONS WITH LIBYA AS WELL, BUT IT IS MOST UNLIKELY THAT THEY WOULD PERMIT A LIBYAN MILITARY PRESENCE IN MALTA.

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C. IS THE CONTINUING CHINESE PRESENCE IN MALTA (CURRENTLY ESTIMATED SOME 350) OF CONCERN TO NATO OR THE U.S.? THUS FAR, THE CHINESE IN MALTA HAVE APPEARED TO BE WORKING TECHNICIANS WHO KEEP THEMSELVES BUSY ON THE VARIOUS INDUSTRIAL PROJECTS THEY ARE HELPING TO ESTABLISH (DOCKYARD, GLASS, CHOCOLATE AND FURNITURE FACTORIES, ETC.). THEIR PESENCE ON THE ISLAND IS LARGELY UNOBTRUSIVE AND SEEMS TO BE QUITE LIMITED AS FAR AS ANY POLITICAL EFFECT ON THE AVERAGE MALTESE IS CONCERNED.

D. IS MALTA'S DAY AS A FORTRESS AND A MAJOR NAVAL AND AIR BASE OVER? WOULD A TRULY "NEUTRAL" MALTA

(WITHOUT A MAJOR POWER MILITARY PRESENCE) BE POSSIBLE
AND ACCEPTABLE DURING THE 1980-S?

E. COULD A CLOSER MALTESE ASSOCIATION WITH THE
EEC OFFER A POSSIBLE ECONOMIC SOLUTION TO MALTA'S POST-
1979 PROBLEMS?

F. TO BE BLUNT, DOES IT MATTER TO THE WEST WHAT
HAPPENS TO MALTA AFTER 1979?

SUCH CONSIDERATIONS ARE DIFFICULT TO EVALUATE AT
THIS POINT. BUT THE BRITISH HAVE STATED THAT THEIR
DECISION TO LEAVE MALTA BY 1979 IS FIRM AND IRREVOCABLE.
THEEFORE, MALTA'S IMPORTANCE TO WESTERN SECURITY IN
THE MEDITERRANEAN MUST BE REASSESSED, AND ITS VALUE
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TO THAT SECURITY DETERMINED, BEFORE THAT DATE.
THE U.S. ROLE IN THIS PROCESS SHOULD BE TO ASSURE THAT
OUR OWN EVALUATION OF MALTA'S IMPORTANCE IS COMPLETED
IN TIME FOR THE USG TO PLAY AN ACTIVE ROLE IN THE
SUBSEQUENT NATO STUDY OF THE SUBJECT.

WE MUST REMEMBER THAT WHATVER MALTESE GOVERNMENT
EMERGES FROM THE ELECTION THIS YEAR--LABOR OR NATIONALIST
--IT WILL SEEK TO CAPITALIZE ON MALTA'S STRATEGIC LOCATION
TO OBTAIN FROM THE WEST (1) SOME KIND OF PHYSICAL SECURITY
OR GUARANTEE OF NEUTRALITY AND (2) HEFTY COMPENSATION
FOR THE DRASTIC LOSS OF REVENUE RESULTING FROM THE
BRITISH DEPARTURE.

THE LATTER POINT MEANS THAT WE, AS PART OF NATO,
WILL BE EXPECTED TO CONTINUE TO HELP SUPPORT MALTA--AS
WE HAVE SINCE 1972. BUT WOULD CONGRESS STAND STILL FOR
FURTHER CONTRIBUTIONS TO MALTA, A COUNTRY WHICH (UNDER
MINTOFF) REGULARLY VOTES AGAINST US IN THE UN AND WHICH
WILL NOT PERMIT EVEN A BRIEF PORT VISIT BY A USN VESSEL?
VIEWED FROM HERE, WE THINK NOT.

7. POLICY RECOMMENDATIONS

THE EMBASSY RECOMMENDS THAT U.S. ACTIONS VIS-A-VIS
MALTA DURING THE COMING YEAR SHOULD BE GUIDED BY THE
FOLLOWING CRITERIAWC

A. THE EMBASSY SHOULD CONTINUE TO MAINTAIN A LOW
PROFILE IN ITS OFFICIAL DEALINGS WITH THE GOM, WHILE
SEEKING IN EVERY WAY TO PROMOTE FRIENDLY BILATERAL
RELATIONS AS THE USG HAS LITTLE LEVERAGE ON THE GOM,
IT WOULD BE BEST TO CONTINUE TO ALLOW THE BRITISH, AND

TO A LESSER EXTENT OTHER NATO GOVERNMENTS REPRESENTED
HERE (ITALIANS, GERMANS, FRENCH), TO TAKE THE LEAD
WITH MINTOFF WHENEVER APPROPRIATE.

B. THE EMBASSY SHOULD MAINTAIN A CAREFUL NEUTRALITY
DURING THE MALTESE ELECTION CAMPAIGN. OFFICIAL CONTACTS
AND PERSONAL RELATIONS WITH BOTH LABOR AND NATIONALIST
LEADERS SHOULD BE CONTINUED AND BROADENED, BUT THE
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EMBASSY SHOULD AVOID ANY INDICATION OF PARTIALITY TOWARD
THE OUTCOME.

C. THE USG (AND THE OTHER NATO GOVERNMENTS) SHOULD
AVOID ANY ATTEMPTS TO BUY MINTOFF'S FAVOR BEFORE THE
ELECTION, EITHER BILATERALLY OR MULTILATERALLY. MINTOFF
WILL, OF COURSE, TAKE ANYTHING HE CAN BEG, BORROW OR
STEAL FROM ANYONE, BUT WITHOUT SO MUCH AS A "THANK YOU"
IN RETURN. SUCH INITIATIVES NOW WOULD BE WASTED AND
WOULD BE SEEN BY THE NATIONALISTS AS TAKING SIDES IN
THE ELECTION. THE PREVIOUS U.S. BILATERAL ASSISTANCE
PROGRAMS, RESULTING FROM THE 1971-72 NATO BASE NEGOTIATIONS,
HAVE EITHER BEEN COMPLETED OR WILL SOON TERMINATE (E.G.
THE DOLS FIVE MILLION SUPPORTING ASSISTANCE LOAN). NO
NEW ONES WOULD BE IN ORDER NOW.

D. WE SHOULD CONTINUE THE CLOSEST POSSIBLE COOPERATION
WITH OUR NATO ALLIES CONCERNING MALTA, BOTH ON THE
EMBASSY LEVEL HERE, IN THE NATO CAPITALS MOST CONCERNED,
AND ESPECIALLY IN BRUSSELS. THIS WILL BE PARTICULARLY
TRUE WITH REGARD TO THE BRITISH AND THE ITALIANS, AND
TO A LESSER EXTENT WITH THE GERMANS AND THE FRENCH.
THIS IS A SIMPLE MATTER OF SELF PROTECTION, AND THE
AVOIDANCE OF DOUBLE (OR MULTIPLE) DEALING BY THE MALTESE,
WHO ARE PAST MASTERS OF THIS ART.

E. ALTHOUGH PERHAPS WE DO NOT WANT TO GET TOO FAR
OUT IN FRONT, IT DOUBTLESS WILL BE NECESSARY FOR THE
USG TO TAKE A MAJOR ROLE IN ORCHESTRATING THE NATO
STUDY ON "WHITHER MALTA?" OTHERWISE, NATO MIGHT ONCE
AGAIN FIND ITSELF IN A CRISIS MANAGEMENT EXERCISE
CONCERNING MALTA AND OPEN THE DOOR TO SOME MORE
BLACKMAILING TACTICS FROM MINTOFF. WE SHOULD THEREFORE
MAKE AN EARLY DETERMINATION OF WHAT OUR MAJOR, LONG-
TERM INTERESTS ARE IN MALTA, AND ITS LEVEL OF IMPORTANCE
TO NATO IN THE MEDITERRANEAN AREA. IN SHORT, THE
FUNDAMENTAL QUESTION REMAINS: HOW MUCH, IF ANYTHING,
IS MALTA WORTH TO US? IF NATO'S SOUTHERN TIER REMAINS
INTACT, OUR HUNCH IS NOT MUCH, OR AT LEAST NOT AS MUCH
AS THE MALTESE THINK.

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8. RESOURCES

EMBASSY BUDGETARY AND PERSONNEL RESOURCES ARE ADEQUATE FOR THE ATTAINMENT OF U.S. POLICY OBJECTIVES AND FOR THE CONDUCT OF POST OPERATIONS DURING THE COMING YEAR. WITH THE ELIMINATION OF THE POLITICAL SECTION IN 1974 (ONE OFFICER AND ONE SECRETARY) AND THE ECONOMIC SECRETARY'S POSITION IN 1975, EMBASSY STAFFING IS NOW AT MINIMAL LEVELS FOR EFFECTIVE OPERATIONS. ANY FURTHER REDUCTION IN THE SMALL COUNTRY TEAM IN MALTA WOULD BE UNWISE AND WOULD ADVERSELY AFFECT THE EMBASSY'S ABILITY TO CARRY OUT ITS RESPONSIBILITIES.

9. DEPARTMENT PLEASE PASS OTHER ADDRESSES AS APPROPRIATE.SMITH

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